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CRS Report for Congress

National Credit Union Share Insurance Fund (NCUSIF): Credit Union Deposit Insurance

Pauline Smale
Economic Analyst
Government and Finance Division

Summary

The National Credit Union Share Insurance Fund (NCUSIF) is the federal deposit insurance fund for credit unions. This insurance fund is administered by the National Credit Union Administration (NCUA), an independent federal agency. Membership in the NCUSIF is mandatory for federal credit unions. The vast majority of state-chartered institutions are also federally insured. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (P.L. 110-343) temporarily increased the deposit insurance coverage for depository financial institutions insured by the NCUSIF and by the Federal Deposit Insurance Corporation (FDIC). The intent of this action was to bolster public confidence in financial institutions, which had been negatively affected by the turmoil in financial markets. The basic coverage limit was raised from $100,000 to $250,000 per depositor effective through December 31, 2009. The legislation did not change the coverage for retirement accounts, which remain separately insured up to $250,000. This report provides information on the structure and operations of the NCUSIF and the changes to the insurance coverage contained in P.L. 110-343. This report will be updated as warranted by events and legislation.

Overview of the NCUSIF

The National Credit Union Share Insurance Fund (NCUSIF) was created in 1970 by P.L. 91-468,[1] which established the fund in the Treasury of the United States. The National Credit Union Administration (NCUA), an independent federal agency, is the federal regulator for credit unions and it manages the insurance fund for the credit union industry. NCUSIF insured share accounts[2] are backed by the full faith and credit of the U.S. government; all federal credit unions are insured by the NCUSIF. The great majority

[1] October 19, 1970, 84 Stat. 994.

[2] Credit unions are cooperative organizations and member deposits are referred to as "shares"and the term share accounts covers the various types of member accounts offered by credit unions.

of state-chartered institutions are also federally insured, though federal deposit insurance is still optional in a few states. In December 2007, there were 5,036 federal credit unions and 3,065 federally insured state-chartered credit unions. These federally insured institutions held assets totaling $754 billion and had a total membership of 87 million. In 2007, 167 state-chartered credit unions were privately insured by American Share Insurance (ASI) in eight states. These institutions are regulated by the relevant state authorities.[3]

The NCUA is governed by a three-member Board. The board is responsible for chartering, supervising, and examining federal credit unions, whereas state regulators have primary supervisory authority over federally insured state-chartered credit unions. State regulators work in cooperation with the NCUA to ensure that these institutions meet safety and soundness standards required to obtain and maintain federal insurance. The NCUA examines federal credit unions to determine compliance with applicable law and regulation, and to determine the financial condition of the institution for insurance purposes. The NCUA reviews state examination reports and may participate in joint examinations with state authorities. There are policies and procedures for assisting financially troubled institutions. For failed institutions, the NCUA can arrange an assisted merger, a purchase and assumption, or an involuntary liquidation.

The NCUSIF is audited annually by an independent accounting firm. The auditors' report is presented in the NCUA's annual report. In addition, the NCUSIF is subject to audit by the Government Accountability Office.

Financial Structure of the Fund

The NCUSIF was established in 1970 without start up capital from the U.S. Treasury. Premiums from insured credit unions are the fund's primary source of income. This arrangement is similar to that of the FDIC. Premiums are used to pay the fund's operating expenses, cover losses, and build reserves. Premiums were originally set at one-twelfth of 1% of the total amount of member share accounts. The fund also generates income from investing its reserves in government securities. During the first decade of operations the insurance losses from troubled or failed credit unions were minimal. This situation, in combination with low operating expenses, allowed the fund to build reserves towards the statutory target of 1% set by P.L. 91-468.

The decade of the 1980s was a period of stress and change for all depository financial institutions and federal deposit insurance funds. By the early 1980s, the NCUSIF was operating under the constant pressure of a growing caseload of problem and failing institutions. Insurance losses threatened the fund's solvency. The NCUA requested recapitalization legislation from Congress. Provisions for strengthening the fund were included in P.L. 98-369.[4] Each federally insured credit union was required to place a deposit with the fund in an amount equaling 1% of its insured share accounts. The 1% is carried on each individual institution's books as an asset. The NCUSIF's reserves

[3] Information from NCUA's website, see [http:www.ncua.gov/news/quick_facts/Facts2007.pdf].

[4] July 18, 1984, 98 Stat. 494.

consist of the 1% deposit, the fund's accumulated insurance premiums, and interest earnings. The NCUA Board determines the annual operating level for the ratio of fund equity to insured shares between the statutorily prescribed parameters of 1.2% and 1.5%. In recent years, the NCUA has set a goal of achieving an operating level of 1.3%. If the equity ratio falls below 1.2%, the NCUA Board is required to assess a premium to restore the equity ratio to 1.2%. The board may assess a premium if the ratio falls between 1.2% and the declared operating level. In addition, the board has the option of declaring a dividend if, at the end of the calendar year, the NCUSIF equity level exceeds the board's set operating level goal.

Examination fees and any penalties collected from insured institutions by the board are deposited into the NCUSIF. Portions of the fund not applied to current operations can be invested in government securities; earnings are reinvested or deposited into the fund. The NCUSIF has the authority to borrow up to $100 million from the U.S. Treasury if, in the judgement of the board, a loan to the fund is required. In addition the fund is authorized to borrow from the Central Liquidity Facility.[5]

Insurance Coverage

Depositors at federally insured credit unions, banks and savings associations are insured up to the legal limit per depositor per insured institution. If a depositor has more than one account at the same institution, those accounts are added together and the total is insured up to the legal limit. An account holder may qualify for additional coverage, at one institution, if their funds are either in retirement accounts or in deposit accounts in different ownership categories (for example, joint ownership or revocable trust accounts). The NCUA's website has a share insurance tool kit that includes a brochure on insurance protection, a FAQ fact sheet, and an online share insurance estimator that can be used to calculate an individual account holder's insurance coverage.[6] Deposit insurance is paid out when a federally insured institution fails, is closed, and its assets liquidated. To date, no account holder has ever lost a penny in an account covered by NCUSIF or FDIC deposit insurance.

During the early 2000s, Congress debated the costs and benefits of increasing the standard maximum insurance limit of $100,000 as well as varying the coverage limit by type of account. The $100,000 limit had been in place for 20 years, and inflation concerns coupled with the introduction and growth of new account types (in particular retirement accounts) fueled the debate. In general, the intent of federal deposit insurance is to provide a degree of depositor security that benefits institutions and individuals. Deposit insurance is thought to help prevent the type of panic behavior that can cause "bank runs," which can in turn result in bank failures. When an institution fails, deposit insurance reduces the resulting financial impact on households and businesses. In addition, the economic instability that a failed institution can cause a community or region would be

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[5] The Central Liquidity Facility (CLF) is a mixed-ownership U.S. government corporation created to provide a source of seasonal and emergency liquidity for credit unions. For additional information on the CLF, please see [http://www.ncua.gov/clf/index.htm].

[6] The insurance tool kit can be found at [http://www.ncua.gov/ShareInsurance/Index.htm].

diminished. At the same time, deposit insurance raises concerns over how to balance the benefits of providing deposit insurance with the potential downside of weakening the incentives for managerial discipline. With deposit insurance, managers of financial institutions may become less concerned over depositors withdrawing their funds and therefore the managers may take on more risk. This behavior is often referred to as "moral hazard." This arguably increases the need for more effective supervision and examination practices by the regulators of insured institutions.

Recent Legislation

The 109th Congress passed two laws that authorized adjustments to deposit insurance coverage.[7] The Federal Deposit Insurance Reform Act of 2005 (P.L. 109-171) and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (P.L. 109-173) made the following changes for share accounts insured by the NCUSIF:

- the standard insurance coverage limit (per depositor per insured institution) remains at $100,000 until 2010;
- in 2010 and in each subsequent five-year period thereafter the NCUA and the FDIC will jointly determine whether an inflation adjustment is warranted;
- the insurance limit for eligible retirement accounts is raised from $100,000 to $250,000 and this limit is also subject to the inflation adjustments; and
- pass-through insurance coverage was established for employee benefit plans.

On October 3, 2008, the President signed into law the Emergency Economic Stabilization Act of 2008 (P.L. 110-343). This law, commonly referred to as a "financial rescue package," was enacted to address instability in the credit markets. Provisions of the law temporarily raise the basic limit of $100,000 on federal deposit insurance coverage to $250,000 (retirement accounts retain their existing $250,000 insurance coverage limit). The intent of this action was to bolster public confidence in, and provide additional liquidity to, depository financial institutions. The change became effective immediately and, unless Congress determines otherwise, the limit returns to $100,000 after December 31, 2009. The NCUA's share insurance tool kit has been updated to reflect these recent changes.

Additional action taken by the FDIC has raised interest in whether parity needs to be provided for credit unions. On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program, to "strengthen confidence and encourage liquidity in the banking system."[8] Components of the new program would affect deposit insurance by permitting participating FDIC insured depository institutions to provide full, unlimited deposit insurance coverage for non-interest bearing deposit transaction accounts. The intended targets of this action were mainly payment-processing accounts,

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[7] For the adjustments to share insurance see 12 U.S.C. 1781-1790d.

[8] FDIC news release, see [http://www.fdic.gov/news/news/press/2008/pr08100.html].

for example, payroll accounts used by businesses. Coverage provided by this guarantee would expire by year end 2009. The costs would be funded by a 10 basis point insurance surcharge paid by participating institutions.[9] Credit union advocates have expressed concern about whether similar full coverage of non-interest bearing transaction accounts at credit unions will be provided.[10] The fear is that public confidence in credit unions may be negatively affected by any differences in the account insurance coverage offered by banks and credit unions.

[9] For additional information on the program, see [http://www.fdic.gov/news/news/press/2008/pr08100.html].

[10] National Association of Federal Credit Unions press release, see [http://www.nafcu.org/Template.cfm?Section=News&template=/contentManagement/contentDisplay.cfm&contentID=35081].